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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

India's Food Situation—A Continuing Crisis

Secret

№ 47

23 December 1966

No. 0320/66B

MORI/CDF Pages 1 and

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INDIA'S FOOD SITUATION--A CONTINUING CRISIS

For several years India has had to import huge quantities of grain (some 12 million tons in 1966) to keep vast segments of its population from starvation. The coming year will be no exception, and the United States--as it has for years--will probably be looked to as the major supplier. Moreover, unless India continues to receive its foreign grain as gifts or under long-term credits, it will have to make drastic cuts in imports needed to keep its industries operating or virtually deplete its foreign exchange reserves. The food crisis has led the government to devote much greater attention to agriculture. However, for the next several years, even with good crops, India will require substantial foodgrain imports.

Situation in 1966

As a result of the almost complete failure of the 1965 monsoon--perhaps the most severe drought of this century--India's food grain production during the 1965-66 crop year (1 July to 30 June) fell to 72.3 million tons--about 20 percent below the bumper 89-million-ton harvest of 1964-65. The nearly 12 million tons of imported food grains (including nearly 9 million tons from the US) needed in 1966 to alleviate the acute shortages were handled and distributed surprisingly well by India's ports and transport facilities. India thus demonstrated that its ports can handle about a million tons per month on a continuing basis.

Even with the large-scale imports of 1966, however, it is estimated that on a per capita basis the amount of food grain available has been considerably less during the year than the

average of the preceding five-year period (see table on next page).

In addition to stepping up imports, India supplemented foodgrains available from domestic production by drawing down farmers' and merchants' stocks established from the bumper 1964-65 crop. Although information on these emergency stocks is not precise, it is estimated that they had increased by three to seven million tons during 1965. These stocks are now believed to be exhausted.

During 1966, the principal control mechanism of the government was a food grain distribution and ration system. The number of "fair-price shops"--small private stores licensed to sell at fixed prices--was increased from 110,000 in 1965 to 128,000 during late 1966. Food rationing was introduced for the first time in several major cities, and some 112 million people are

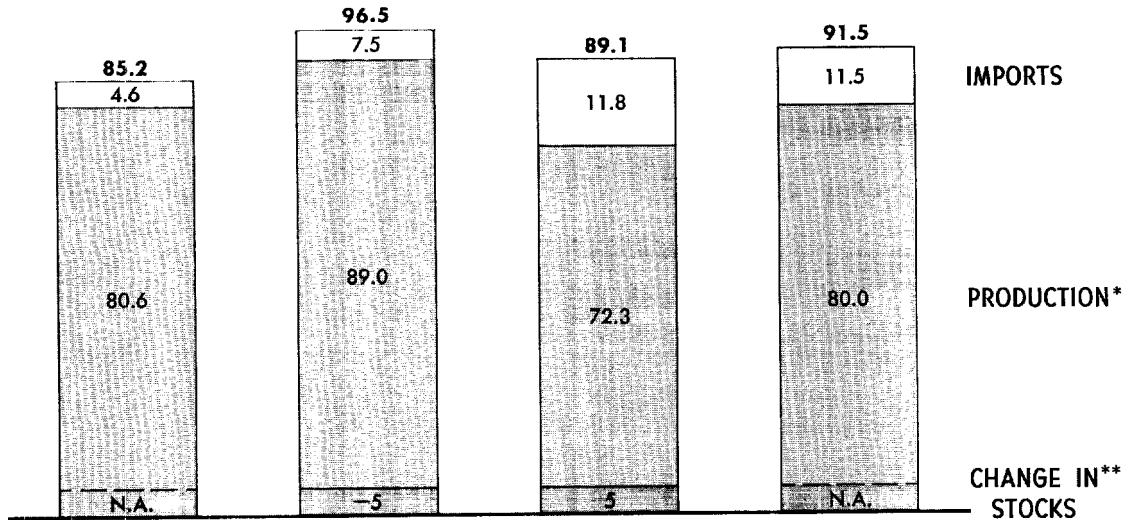
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Estimated Production, Imports, Changes in Stock, and Per Capita Availability of Foodgrain 1960-1967

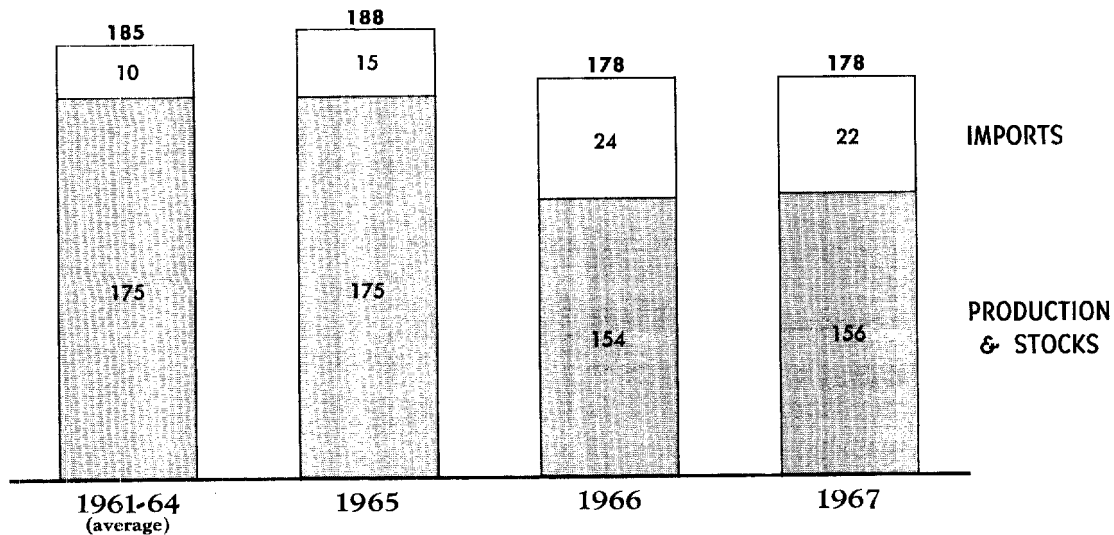
Total Supply

(Million metric tons)



Per Capita Availability***

(Kilograms)



*Foodgrain production is normally reported on a crop year (1 July-30 June) basis. For purposes of this chart, however, to determine annual availability it has been assumed that foodgrains produced in any one crop year are available for consumption principally during the calendar year that includes the last half of that crop year.

**There are no precise data available regarding change in farmers' and merchants' emergency stocks. The figures used here are at best an educated guess. Estimates of changes in stock during 1965 and 1966 by analysts in the US Department of State and Agriculture are in a range from three to seven million tons. If emergency reserve stocks are increased in 1967, import requirements will rise accordingly. Minus sign represents a subtraction from production for stockpiling.

***Including feed, seed, and waste estimated to be about 12.5 percent of production.

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receiving food grains under one or another form of rationing program. About one million tons of food grain per month, principally from imports, were distributed by the government largely through the fair price shops. Some food was given out in lieu of wages in rural areas with inadequate supplies. Despite these measures, there is still extensive privation in some areas.

Food Prospects for 1967

The principal areas whose 1967 food grain supplies will be most affected by this year's drought are inhabited by more than a hundred million people, principally in Bihar, eastern Uttar Pradesh, and northeastern Madhya Pradesh (see map on next page). The winter crop planted in November and December and harvested in March will not provide much relief in these areas. Here, only about one seventh of the annual production is derived from this crop, in contrast to most other regions where it provides about one third.

The drought has to a lesser extent hit some areas in West Bengal, Rajasthan, and Gujarat, but had little impact in Punjab, Assam, and the southern states of Madras and Andhra Pradesh. Mysore and Kerala, also in southern India, have not been much affected by the drought either but these southern states have long been food grain - deficit states.

About half the population in the area affected by the 1966 drought is rural. Large numbers of destitute people are reported

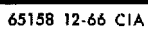
to be arriving daily in Calcutta from drought-affected areas.

Preliminary estimates indicate that food grain production during the 1966-67 crop year will be about 80 million tons, some 15 million tons less than the government had planned, but about 8 million more than was produced during 1965-66. Assuming an effective distribution system during calendar 1967, India will require about 91.5 million tons of food grains--including an additional 2.5 million tons of food-grain to feed the annual increase in population--to maintain food grain availability at even the low level of 1966. Because grain stocks have been exhausted, minimum requirements for food grain imports in 1967 will thus be on the order of 11.5 million tons.

This estimate does not, however, take into account a possible further requirement created by grain distribution problems. Present government restrictions prohibit the free marketing of food grains across state borders, and the government has not been very successful in the past in securing surplus local grain for public distribution to deficit areas.

State governments, under the constitution, have primary responsibility for food policies and do not cooperate fully with the central government in its efforts to manage the food supply situation. They are highly jealous of their authority, and as a result decisions on food are made in effect by a 15-member committee--a

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central chairman and 14 state spokesmen, all with different interests. Although a compulsory food grain levy has theoretically been imposed on cultivators, there is no national monopoly procurement of food grains. Each state procures grain by whatever method seems best, and in 1967 not more than an estimated 3.5 million tons of grain will be procured from local production to meet national distribution requirements. State governments have been asked to maximize local food grain procurement in keeping with their commitments, and government purchase prices have been raised in most states to facilitate this and to provide an incentive to farmers. Free market prices continue well above government price support levels, however, and it is expected that producers will offer only limited supplies to the government.

The distribution problem arising from the 1966 drought is an extremely difficult one. Although the failure of the monsoon in 1965 affected crops throughout India, the 1966 drought has been confined principally to a broad heavily populated north central belt. In 1967, it is estimated that two states alone--Bihar and Uttar Pradesh--will have to be supplied from central stocks with a minimum of four million tons of grain in order to provide a daily ration of six ounces of food grain for each adult--a still inadequate supply. This is 2.5 million more than was supplied to these two states in 1966. Unless it can procure these additional

grain requirements from local surpluses in other areas, the government would appear to have but two alternatives. It must either reduce rations accordingly in other already deficit regions, or it must seek in 1967 a minimum of 15 million tons of grain imports--2.5 to 3 million tons more than was imported in 1966.

Terms Required for 1967
Food Grain Imports

India is seeking eight million tons of food grain from the United States under Public Law 480, two million tons of wheat from Canada, and a million tons of wheat from Australia. The Indians also hope to get a million tons from the USSR, and have asked Thailand to sell them 200,000 tons of rice.

So far, the Canadians have granted 150,000 tons of wheat and wheat flour for delivery in January. Australia has agreed to provide 300,000 tons of wheat; half of this is to be a gift, with the other half to be sold under one-year commercial credit terms--the same terms extended to Communist China. Thailand has agreed to sell 150,000 tons of rice, with delivery to begin in January. These agreements thus assure that India can receive adequate grain until early February 1967.

Because of the time lag between authorization and delivery, however, India would have to conclude additional food grain import agreements soon in order

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to ensure continued deliveries of grain after early February, when (according to information available as of 21 December 1966) these and previously authorized US deliveries of food grains will have been completed. Otherwise, a breakdown in the system of public grain distribution could occur and rations in major cities would have to be drastically reduced. The Indian Government may still face food shortages before the elections scheduled for 15 to 21 February.

The USSR, which provided only about \$3 million in food gifts during the 1966 food crisis, has not responded favorably to India's past food emergencies, and probably will not accede to its latest request. Moscow may well regard the food crisis as an opportunity for increasing the strength of India's leftist-oriented factions and for a reorientation of Indian agricultural policies along socialist lines. The Soviets already have agreed to provide assistance for agricultural development in the public sector, which in the long run could in itself result in socialist-organized agricultural institutions. This has included agreements to give India machinery and equipment, valued at \$1.8 million, for five state farms and to provide long-term credits for the import of \$20.5 million worth of equipment for an additional ten farms and 15 machine-tractor stations.

India cannot spend more foreign exchange on food imports during 1967 than during 1966 without drastically reducing the hard-

currency resources required to purchase spare parts, raw materials, and machinery needed to keep its industries operating. It is estimated that during 1966, India will have bought about \$240 million worth of food (including US Public Law 480 freight charges) in addition to food received under long-term credits or as gifts.

During 1967, the cost--including transportation--of purchasing abroad some 12 million tons of food grains would be about \$900 million--some \$660 million more than India spent in 1966. This \$660 million would be almost 20 percent more than the foreign exchange reserves estimated to be available to India at the end of the Indian 1966/67 fiscal year (31 March). It would be about 40 percent of India's average annual export earnings, or roughly two thirds of the total estimated nonproject aid coming from the free world in 1967.

Moreover, even if India were to receive some \$660 million in food aid and the \$1.6 billion (\$.6 billion for designated projects and \$1.0 billion in non-project aid) expected in other free world aid, preliminary balance-of-payment data for 1967 indicate that India would have to use some \$400 million of its foreign exchange reserves to help service the demands of other sectors of the economy. This would reduce total foreign exchange reserves to about \$150 million--some \$300 million lower than the legal minimum.

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Future Dependence on Imports

India's short-term prospects for eliminating the need for grain imports are not bright. Assuming even average crop years, dependence on substantial imports probably will continue through 1969, and some imports will be needed beyond this period--probably until 1975. If there is another crop failure during this period, India's grain import requirements will become astronomical.

Even with a modest-to-good crop of 90 to 95 million tons of food grain during the 1967-68 crop year, India would probably need to import at least 8 million tons during 1968. For example, in August 1966 when food grain production for 1966-67 was still estimated some 10 to 15 million tons higher than now appears possible, the requirements of public distribution for food deficit areas in 1967 were estimated at 12 million tons. Even at this estimated high level of production, the government was planning to procure locally only about 3.6 million tons of food grain for public distribution. The remainder, some 8.4 million tons, was to be imported.

Unless the government grain procurement policy is radically improved, only about four million tons of an estimated 12-million-ton grain rationing requirement is likely to be procured from local production in 1968. The remainder would have to be imported. With only one good crop year following two bad ones, farmers and merchants would probably use their surpluses to build

up their emergency reserves, as they did during the 1964-65 bumper crop.

Even the removal of government restrictions on interstate grain movements probably would not reduce import requirements; it could well increase them by actually serving to reduce the amount of local grain the government could procure. Without government controls the limited surplus domestic food grain supplies would be sold at high prices in high income urban areas, not at reasonable prices to the poor who depend on public supplies. It is doubtful that the government could effectively implement a satisfactory mandatory grain procurement policy.

Assuming a second consecutive average-to-good crop during 1968-69, much of the rationing system probably could be dismantled and government restrictions on grain movements relaxed. However, it would be necessary to build during 1969 buffer stocks needed to help control prices and prevent urban hardships. Given the additional annual requirement for about 2.5 million tons to feed the annual population increase, India would need some 105 million tons of food grain in 1969--about 97 million tons to maintain even present low per capita levels of grain availability and about eight to nine million tons to build up central stocks. Even with a good 1968-69 crop of about 100 million tons, India would require imports of about five to six million tons in 1969, with most of this probably going to central stocks.

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Estimated Imports of Foodgrain, 1960-1969

(MILLION TONS)

YEAR	TOTAL	Public Law 480 from US	OTHER
1960	5.1	4.9	0.2
1961	3.5	3.1	0.4
1962	3.6	3.1	0.5
1963	4.6	4.2	0.4
1964	6.3	6.2	0.1
1965	7.5	6.2	1.3
1966	11.8	9.0*	2.8
1967	11.5	?	?
1968	8.0**	?	?
1969	6.0**	?	?

*Delivery probably to be completed by 15 Jan. 1967.

**Assumes moderate to good crops of 90 to 95 million tons of foodgrains during the crop year 1967/68 and 95 to 100 million tons during 1968/69.

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As long-range agricultural reforms take effect, the 1969-70 crop should show continued improvement, with the requirement for food-grain imports reduced further. Nevertheless, it is estimated that India will continue to need some imports through 1975 (see table).

Outlook

The basic weaknesses of Indian agriculture, as revealed by two successive monsoon failures, have impressed Indian leaders with the need to place greater emphasis on agricultural development. Since the 1965 crisis, they have initiated several measures that should help strengthen agriculture. To increase food grain production as quickly as possible India has begun programs to concentrate new agricultural efforts on the best land, to improve its fertilizer distribution policy, to expand and improve seed production, and to provide increased credit to the farmer. However, even with maximum effort, these programs cannot accomplish very much quickly, and for the next several crop years--at the minimum through 1969--the level of food grain production will continue to depend principally on the vagaries of the weather.

Although the government plans to continue to accord agriculture high priority, substantial increases in food grain production, principally from the cumulative

effects of these short-term measures and of the even longer term programs to expand minor and medium irrigation and to increase domestic fertilizer production, are not likely before about 1970-71.

Among other proposals, there are plans to put an estimated additional 17 million acres under minor irrigation during the fourth five-year plan (1966-71)--as compared with only 5.5 million acres during the third five-year plan (1961-66). Thus, the government is reorienting its irrigation effort to concentrate on minor irrigation schemes to meet the needs of intensive agriculture--as opposed to the present thin application of water to the largest possible area to afford protection against drought. Moreover, under the fourth five-year plan the government is to almost double total agricultural investment (including community development and irrigation) by spending the equivalent of about \$3.8 billion--compared with only about \$2 billion during the third five-year plan.

In sum, about the best the Indians can hope for in the short run is to import and effectively distribute sufficient grain for the rationing system to prevent starvation until the results of the measures to increase agricultural production take effect. (SECRET)

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--Prepared by the Office of Research and Reports--

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Approved For Release 2006/12/27 : CIA-RDP79-00927A005600010003-9

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